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STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
DAVID C. HOLLISTER, DIRECTOR

LINDA A. WATTERS
COMMISSIONER

Memorandum

DATE: August 10, 2005

TO: All interested parties

FROM: Linda A. Watters, Commissioner of the Office of Financial and Insurance Services

SUBJECT: Determination on Degree of Competition in Commercial Liability Market

Pursuant to MCL § 500.2409(c), I have determined that a reasonable degree of competition in the statewide commercial liability insurance market exists. While the commercial liability insurance market remains in a mildly hard phase of the underwriting cycle, signs of a softening on the market are surfacing.

One can attribute the higher premiums to several factors. First, the commercial liability insurance market experienced an extended soft market of declining premiums dating from 1994 through 2000. During this period, premiums declined dramatically threatening profitability. The market began to harden early in 2001 with the unexpected terrorist attack of September 11 causing a further increase in premiums. Also, the economy had already begun to weaken in the middle of 2000 following a large stock market correction and historically low money market interest rates, which together reduced insurance company reserves.

In spite of these factors, the commercial liability insurance market is still reasonably competitive. There are many insurers writing this coverage to offer many policy options to companies. Moreover, no single company controls all or a significant part of the commercial liability insurance market. Available data indicate that the largest insurer had a 7.79% market share of direct premiums written and the next seven insurers accounted for 31.64% of the market.

A sign that the commercial liability insurance market is softening is the significant decline in the percentage of premiums written by surplus lines insurers. In 2003, surplus lines insurers accounted for .44% of total premiums written. The comparable figure in 2004 was .32%. These figures support the market shift from a previously hard market to a soft market for commercial liability insurance.

The Office of Financial and Insurance Services is not aware of any serious availability problems in any geographic area in the state for any type of commercial liability insurance.